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***NEBRASKA PUBLIC EMPLOYEES
RETIREMENT SYSTEMS***

2016

**STATE EMPLOYEES' RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND**

**Actuarial Valuation Results
as of January 1, 2016
for State Fiscal Year Ending June 30, 2018**





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April 13, 2016

Public Employees Retirement Board
Nebraska Public Employees Retirement System
Post Office Box 94816
Lincoln, NE 68509

Dear Members of the Board:

At your request, we performed an actuarial valuation of the State Employees' Retirement System Cash Balance Benefit Fund as of January 1, 2016 for the purpose of determining the actuarial required contribution rate for the 2016 plan year. It is our understanding that any additional required State contributions for this plan year will be made on July 1, 2017 (State fiscal year end 2018). The major findings of the valuation are contained in this report, which reflects the benefit provisions in place on January 1, 2016. There was no change to the actuarial assumptions or plan provisions from the prior valuation.

In preparing our report, we relied, without audit, on information (some oral and some in writing) supplied by the System's staff. This information includes, but is not limited to, statutory provisions, member data and financial information. Active member data was provided to us by the Ameritus, the recordkeeper for the plan. We found this information to be reasonably consistent and comparable with information used in the prior report. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete, our results may be different and our calculations may need to be revised.

We further certify that all costs, liabilities, rates of interest and other factors for the State Employees' Retirement System Cash Balance Benefit Fund have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the Fund and reasonable expectations); and which, in combination, offer the best estimate of anticipated experience affecting the Fund. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions. The Public Employees Retirement Board has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in Appendix C.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

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Actuarial computations presented in this report are for purposes of determining the actuarial contribution rates for funding the System. The calculations in the enclosed report have been made on a basis consistent with our understanding of the System's funding requirements and goals. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes. For example, actuarial computations for purposes of fulfilling financial accounting requirements for the System under Governmental Accounting Standard No. 67 are provided in a separate report.

The consultants who worked on this assignment are pension actuaries. CMC's advice is not intended to be a substitute for qualified legal or accounting counsel.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein. We are available to answer any questions on the material contained in the report or to provide explanations or further details as may be appropriate.

We respectfully submit the following report and look forward to discussing it with you.

Sincerely,

A handwritten signature in blue ink that reads 'Patrice Beckham' in a cursive script.

Patrice A. Beckham, FSA, EA, FCA, MAAA
Principal and Consulting Actuary

A handwritten signature in blue ink that reads 'Brent A. Banister' in a cursive script.

Brent A. Banister Ph.D., FSA, EA, MAAA, FCA
Chief Pension Actuary



SECTION 1 – BOARD SUMMARY

This report presents the results of the January 1, 2016 actuarial valuation of the State Employees' Retirement System Cash Balance Benefit Fund (Plan). The primary purposes of performing the actuarial valuation are to:

- Determine if member contributions and matching State contributions, as defined in statute, are sufficient to meet the funding policy defined under Nebraska State Statutes for the plan year ending December 31, 2016 and, if not, the additional State contribution needed.
- Disclose asset and liability measurements as well as the current funded status of the State Cash Balance Benefit Fund on the valuation date.
- Compare actual and expected experience under the State Cash Balance Benefit Fund during the plan year beginning January 1, 2015 and ended December 31, 2015.
- Analyze and report on trends in State Cash Balance Benefit Fund contributions, assets and liabilities over the past several years.
- Quantify the contribution rate available for benefit improvements, if any.

The Nebraska statutes require the State to make an additional contribution if the regular, payroll-related contributions by members (4.80% of pay) and the State (156% of member contributions) are insufficient to meet the actuarial required contribution for the plan year. Based on the results of the January 1, 2016 actuarial valuation, the contributions defined by statute are more than sufficient to meet the actuarially required contribution. **Therefore, there is no additional State contribution for this plan year (due in the State fiscal year ending June 30, 2018).**

There were no changes in the actuarial assumptions or methods since the last valuation. In addition, the benefit provisions also remained unchanged.

The actuarial valuation results provide a “snapshot” view of the State Cash Balance Benefit Fund's financial condition on January 1, 2016. The excess of actuarial assets over the actuarial accrued liability decreased from \$46.2 million last year to \$32.9 million this year and the funded ratio decreased from 103.9% to 102.5%. In addition, the actuarial required contribution rate increased from 9.72% of pay last year to 10.30% of pay in this year's valuation. Several factors impacted the January 1, 2016 actuarial valuation results, including:

- The December 31, 2014 actuarial valuation indicated that the Plan was over 100% funded on both a Funded Basis and a Current Basis, indicating that a dividend could be granted. Based on the Board's policy and statutory authority, a dividend of 4.53% was granted in 2015. As expected, the resulting increase in the cash balance accounts from the dividend decreased the surplus assets at January 1, 2016.
- Actual experience on Plan assets. The rate of return on the market value of assets was 1.1%. Due to the use of an asset smoothing method, the rate of return on the actuarial value of assets was 8.0%, which exceeded the 7.75% assumed rate of return. As a result, there was a small experience gain on assets of \$3.2 million.



SECTION 1 – BOARD SUMMARY

- The impact of actual demographic experience on Plan liabilities. The single largest source of liability experience was a gain due to a lower interest credit in 2015 than assumed (5.00% actual interest credit vs 6.75% assumed interest credit). This gain was offset by the combined impact of unfavorable retirement experience and additional liability from new employees entering the System. The net impact was a small experience loss of \$0.7 million on liabilities.

Although the investment return on a market value basis was 1.1%, due to the use of an asset smoothing method the rate of return on the actuarial value of assets was 8.0%. The net deferred investment gain of \$59.0 million in last year's valuation (difference between the market and actuarial values of assets) has now become a net deferred investment loss of \$26.7 million in this year's valuation, which will be recognized in the asset smoothing method over the next four years. If there is not favorable experience to offset the deferred investment loss, the Plan's funded status will decrease as the investment experience is recognized.

A summary of the key results from the January 1, 2016 actuarial valuation is shown in the following table. As the table indicates, the statutory contribution rates are sufficient to meet the actuarial required contribution rate and no additional State contribution is required. Further detail on the valuation results can be found in the following sections of this Board Summary.

	January 1, 2016 Valuation Results	January 1, 2015 Valuation Results
Unfunded Actuarial Accrued Liability/(Surplus)	(\$32,863,627)	(\$46,201,916)
Funded Ratio using Actuarial Assets	102.52%	103.85%
Normal Cost Rate	10.80%	10.45%
UAAL Amortization Rate	(0.50%)	(0.73%)
Total Actuarial Required Contribution	10.30%	9.72%
Member Contribution Rate	(4.80%)	(4.80%)
Employer Contribution Rate	(7.49%)	(7.49%)
Total Contribution Rate	(12.29%)	(12.29%)
Contribution Shortfall/(Margin)	(1.99%)	(2.57%)
Additional State Contribution Amount	\$0	\$0

State statutes provide that the Board may grant a dividend if the unfunded actuarial accrued liability is less than zero and the dividend granted would not increase the actuarial contribution rate above ninety percent of the actual contribution rate. The PERB also has a policy that sets out additional criteria for granting a dividend which requires the Plan be at least 100% funded on both a Funded Basis and a Current Value Basis before and after the dividend is granted. **For the 2016 Plan year, the actuarially required contribution rate of 10.30% is less than 90% of the expected actual contribution rate of 12.29%. However, the Board policy that requires the Plan be at least 100% funded on a Current Value basis both before and after the dividend is granted is not met so no dividend may be granted.** See Table 14 for more detail.



SECTION 1 – BOARD SUMMARY

EXPERIENCE FOR THE LAST PLAN YEAR

Numerous factors contributed to the change in the Plan’s assets, liabilities, and the actuarial contribution rate between January 1, 2015 and January 1, 2016. The components are examined in the following discussion.

ASSETS

As of December 31, 2015, the State Employees’ Retirement System Cash Balance Benefit Fund had net assets of \$1.31 billion, when measured on a market value basis. This was an increase of \$5.4 million from the prior year. The market value of assets is not used directly in the calculation of the unfunded actuarial accrued liability and the actuarial required contribution rate. An asset valuation method, which smoothes the effect of market fluctuations, is used to determine the value of assets used in the valuation. The resulting amount is called the actuarial value of assets. In this year’s valuation, the actuarial value of assets is \$1.34 billion, an increase of \$91.1 million from the prior year. The components of change in the asset values are shown in the following table:

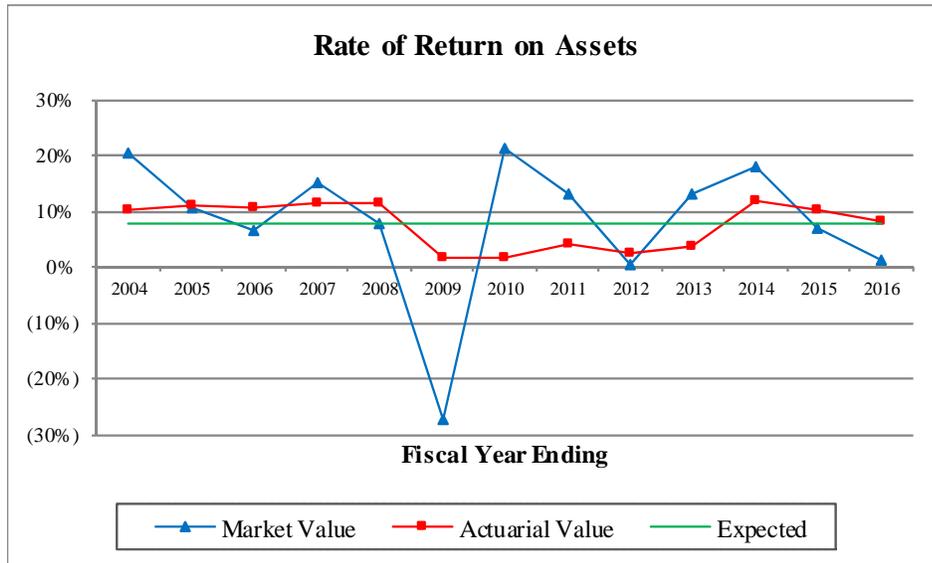
	Market Value (\$M)	Actuarial Value (\$M)
Net Assets, December 31, 2014	\$ 1,305.04	\$ 1,246.04
- Employer and Member Contributions	+ 71.14	+ 71.14
- Benefit Payments	- 85.28	- 85.28
- Administrative Expenses	- 1.08	- 1.08
- Transfers	+ 5.85	+ 5.85
- Net Investment Income	+ 14.78	+ 100.49
Net Assets, December 31, 2015	\$ 1,310.45	\$ 1,337.16
Estimated Rate of Return	1.1%	8.0%

The rate of return on the actuarial value of assets was 8.0%, which exceeds the 7.75% assumed rate of return. As a result, there was an experience gain on assets of \$3.2 million. The difference between the actuarial and market value of assets of \$26.7 million will be reflected over the next four years through the asset smoothing method if there are no offsetting gains.

Please see Section 3 of this report for more detailed information on the market and actuarial value of assets.



SECTION 1 – BOARD SUMMARY



The rate of return of the actuarial value of assets has been less volatile than the market value return, illustrating the benefit of using an asset smoothing method.

LIABILITIES

The actuarial accrued liability is that portion of the present value of future benefits that will not be paid by future normal costs. The difference between this liability and the actuarial value of assets as of the valuation date is called the unfunded actuarial accrued liability (UAAL). The dollar amount of unfunded actuarial accrued liability is reduced if the contributions to the State Cash Balance Benefit Fund exceed the normal cost for the year plus interest on the prior year's UAAL.

The unfunded actuarial accrued liability is shown as of January 1, 2016 in the following table:

	Actuarial Value of Assets	Market Value of Assets
Actuarial Accrued Liability	\$1,304,297,557	\$1,304,297,557
Value of Assets	<u>1,337,161,184</u>	<u>1,310,451,038</u>
Unfunded Actuarial Accrued Liability/(Surplus)	\$ (32,863,627)	\$ (6,153,481)
Funded Ratio	102.52%	100.47%

See Section 4 of the report for the detailed development of the unfunded actuarial accrued liability.



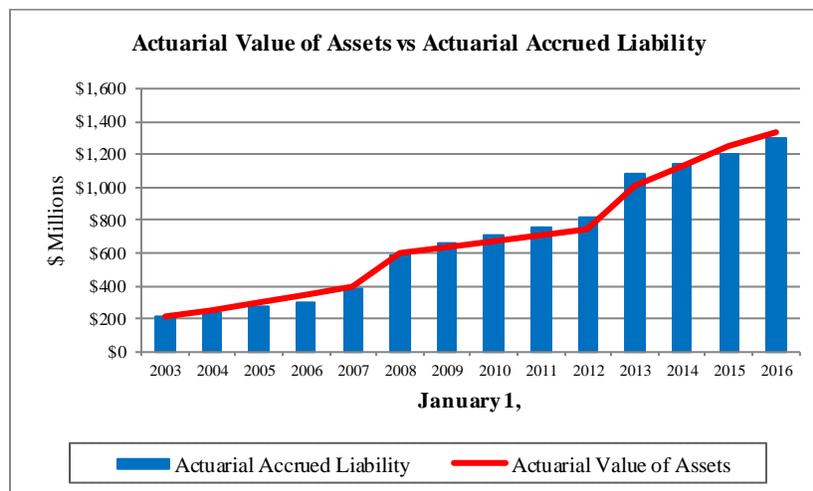
SECTION 1 – BOARD SUMMARY

The net increase in the UAAL from January 1, 2015 to January 1, 2016 was \$13.3 million. The components of this net change are shown in the following table (in millions):

	(\$ Millions)
Unfunded Actuarial Accrued Liability, January 1, 2015	(\$46.2)
- Expected increase from amortization method	0.7
- Actual versus required contributions	(14.9)
- Investment experience	(3.2)
- Liability experience	0.7
- Dividend granted in 2015	35.9
- Other experience	(5.9)
Unfunded Actuarial Accrued Liability, January 1, 2016	(\$32.9)

As shown above, various components impacted the UAAL. Actuarial (gains) losses, which result from actual experience that is (more) less favorable than anticipated based on the actuarial assumptions, are reflected in the UAAL and are measured as the difference between the expected UAAL and the actual UAAL, taking into account any changes due to actuarial assumptions and methods, or benefit provision changes. Overall, the Plan experienced a small net actuarial gain of \$2.5 million.

As the following graph of historical actuarial assets and accrued liabilities shows, the State Employees' Retirement System Cash Balance Benefit Fund liabilities have increased significantly along with the assets in the last ten years. The large increases observed in 2008 and 2013 reflect the transfer of members from the Defined Contribution Plan to the Cash Balance Plan due to new election periods provided by the legislature.



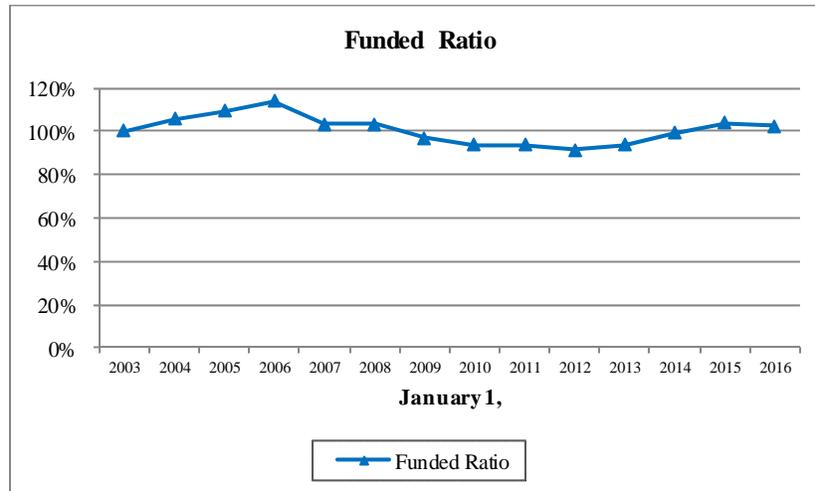


SECTION 1 – BOARD SUMMARY

An evaluation of the UAAL on a pure dollar basis may not provide a complete analysis since only the difference between the assets and liabilities (which are both very large numbers) is reflected. Another way to evaluate the UAAL and the progress made in its funding is to track the funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability. The funded status information is shown below (in millions).

	1/1/2012	1/1/2013	1/1/2014	1/1/2015	1/1/2016
Funded Ratio using Actuarial Assets	91.5%	93.6%	99.2%	103.9%	102.5%
Unfunded Actuarial Accrued Liability (\$M)	\$69.3	\$68.5	\$9.6	(\$46.2)	(\$32.9)

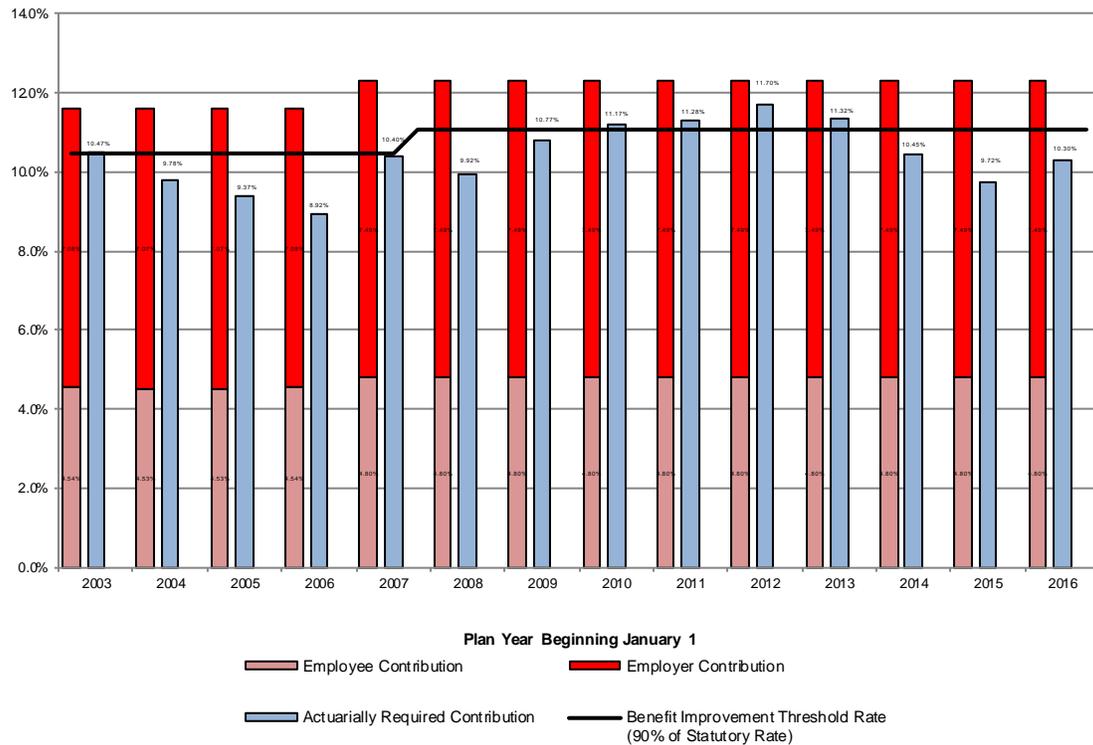
The funded ratio over a longer period of years is shown in the following graph:



As a result of being 100% funded at the creation of the Plan in 2003 and contributing more than the actuarial required contribution in subsequent years (see the following graph), the funded ratio of the Plan has remained strong during the entire period despite investment returns that were less than assumed in some years. Interest credits below the assumed rate during much of this period also improved the funded ratio.



SECTION 1 – BOARD SUMMARY



DIVIDEND DETERMINATION

Each year after the annual actuarial valuation results are received, the Board determines, based on the recommendation of the actuary, if a dividend can be paid. The amount of dividend, if any, is based on the criteria in the Board policy.

One of the criteria for granting a dividend is based on the Accumulated Benefit Obligation, a liability measurement based on the account balances for those not in pay status and the present value of future benefits as of the valuation date for those receiving benefits. This measure is intended to provide information regarding the Cash Balance Plan’s funded status on an immediate, current-value basis and to provide comparability to individual account plans. This liability measure is not used in developing the funding numbers for the Plan, but it is used in determining the amount of dividend as well as whether a dividend can be granted. The Current Value funded ratio for the current and prior year is shown in the following table:



SECTION 1 – BOARD SUMMARY

Funded Status	January 1, 2016	January 1, 2015
1. Cash Balance Accounts		
(a) Actives	\$ 897,876,715	\$ 865,175,320
(b) Inactives	188,200,429	154,470,443
(c) Total	\$ 1,086,077,144	\$ 1,019,645,763
2. Present Value of Benefits for retirees and beneficiaries	230,126,630	186,782,282
3. Total accumulated benefit obligation	\$ 1,316,203,774	\$ 1,206,428,045
4. Market Value of Assets	1,310,451,038	1,305,036,408
5. Deficit/(Reserve) [3 - 4]	\$ 5,752,736	\$ (98,608,363)
6. Funded percentage on Market Value of Assets [4 / 3]	99.6%	108.2%

The criteria used to determine the amount of any dividend that can be granted includes:

A. The plan must maintain the 90% Benefit Threshold Rate after granting any dividend.

1. Statutory Contribution Rate (Total)	12.29%
2. Required Threshold for Benefit Improvement (90% of (1))	11.06%
3. Actuarial Required Contribution	10.30%
4. Rate Sufficiency/(Deficiency) [2 - 3]	0.76%

B. There must be a minimum 100% Funded Ratio on both the Funded Basis and the Current Value Basis, both before and after the dividend is granted.

January 1, 2016 Valuation Results Before Dividend:

	<u>Funded Basis</u>	<u>Current Value Basis</u>
(a) Liability	\$1,304,297,557	\$1,316,203,774
(b) Assets	1,337,161,184	1,310,451,038
(c) (Deficit)/Reserve [(b) - (a)]	\$32,863,627	(\$5,752,736)
(d) Funded Ratio [(b) / (a)]	102.5%	99.6%

C. No dividend will be granted for a year where the annual interest credit rate exceeds the actuarial valuation rate.

D. The dividend plus the annual interest credit during the year cannot exceed 8.0% unless a majority of the PERB agrees.



SECTION 1 – BOARD SUMMARY

State statutes provide that the Board may grant a dividend if the unfunded actuarial accrued liability is less than zero and the dividend granted would not increase the actuarial contribution rate above ninety percent of the actual contribution rate (11.06% this year). The actuarial required contribution rate of 10.30% of pay is less than 90% of the statutory contribution rate of 12.29% or 11.06%. This difference of 0.76% of pay is potentially available for benefit improvements under state statutes, if the Plan's funded ratio exceeds 100%. Although this criteria is met for the 2016 valuation, the PERB's dividend policy requires the funded ratio to exceed 100% on both the Funded Basis (actuarial accrued liability less actuarial assets) and a Current Value Basis (total accumulated benefit obligation less market value of assets). The January 1, 2016 actuarial valuation indicates that the funded ratios are 102.5% and 99.6% respectively. **Although the Plan is more than 100% funded on a Funded Basis (actuarial assets divided by actuarial accrued liability), it is not at least 100% funded on a Current Value basis so no dividend may be granted for 2016.** See Table 14 for more detail on the criteria for granting a dividend.

ACTUARIAL REQUIRED CONTRIBUTION RATE

The State Employees' Retirement System Cash Balance Benefit Fund is funded by statutory contribution rates for members (4.80% of pay) and the State (156% of the member rate). State statutes require the State to make an additional contribution if the regular, payroll-related contributions by employees and the State are insufficient to meet the actuarial required contribution for the plan year. The State contributions for the plan year, if any, are made on the July 1 following the plan year end. Based on the results of the January 1, 2016 actuarial valuation, no additional State contribution is necessary for the current plan year.

Under the Entry Age Normal cost method, the actuarial contribution rate consists of two components:

- A "normal cost" for the portion of projected liabilities allocated by the actuarial cost method to service of members during the year following the valuation date.
- An "unfunded actuarial accrued liability contribution" for the excess of the portion of projected liabilities allocated to service to date over the actuarial value of assets.

The actuarial required contribution is equal to the normal cost rate plus an amortization payment on the unfunded actuarial accrued liability. The amortization payment is the sum of the payments for each amortization base with payments over a 25-year period beginning on the date the base was established. If the UAAL is below zero, as is the case on January 1, 2016, all prior bases are considered to be fully funded and, therefore, are eliminated. See Section 5 of the report for the detailed development of the actuarial contribution rates, which are summarized in the following table:



SECTION 1 – BOARD SUMMARY

Contribution Rates	January 1, 2016	January 1, 2015
Normal Cost Rate	10.80%	10.45%
UAAL Amortization Rate	(0.50%)	(0.73%)
Total Actuarial Required Contribution	<u>10.30%</u>	<u>9.72%</u>
Member Contribution Rate	(4.80%)	(4.80%)
Employer Contribution Rate	(7.49%)	(7.49%)
Total Contribution Rate	<u>(12.29%)</u>	<u>(12.29%)</u>
Contribution Shortfall/(Margin)	(1.99%)	(2.57%)

The actuarial required contribution rate for the current plan year is 10.30%. The member contribution rate of 4.80% and the State contribution rate of 7.488% (156% of 4.8%) result in a total statutory contribution rate of 12.29% of pay. As a result, a contribution margin of 1.99% exists.

A history of actuarial required contribution rates and any resulting additional required State contributions, whether or not actually contributed, is shown in the following table.

History of Expected State Contributions			
Plan Year	State Contribution	Additional Contributions	Total
2004	\$ 12,112,627	\$ 0	\$ 12,112,627
2005	\$ 13,618,155	\$ 0	\$ 13,618,155
2006	\$ 16,912,304	\$ 0	\$ 16,912,304
2007	\$ 24,266,326	\$ 0	\$ 24,266,326
2008	\$ 28,814,683	\$ 0	\$ 28,814,683
2009	\$ 32,461,469	\$ 0	\$ 32,461,469
2010	\$ 34,062,751	\$ 0	\$ 34,062,751
2011	\$ 33,645,530	\$ 0	\$ 33,645,530
2012	\$ 34,366,120	\$ 0	\$ 34,366,120
2013	\$ 37,486,962	\$ 0	\$ 37,486,962
2014	\$ 40,100,198	\$ 0	\$ 40,100,198
2015	\$ 41,715,205	\$ 0	\$ 41,715,205
2016	\$ 43,534,137	\$ 0	\$ 43,534,137

Note: Information prior to Plan Year 2014 was produced by the prior actuary.

The actuarial required contribution rate, which is determined based on the snapshot of the Plan taken on the valuation date of January 1, 2016, will change each year as the deferred investment experience is recognized and other experience (both investment and demographic) impacts the Plan. While there is a contribution margin for the current plan year, this should not be viewed as an unnecessary or excess contribution. In order for the financing of the Fund on a fixed contribution rate basis to succeed, contributions above the actuarial required contribution rate must be made to offset years where the fixed contribution rate may be below the actuarial required contribution rate.



SECTION 1 – BOARD SUMMARY

SUMMARY OF PRINCIPAL RESULTS

	1/1/2016 Valuation	1/1/2015 Valuation	% Change
1. PARTICIPANT DATA			
Number of:			
Active Members	13,084	12,928	1.21%
Retired Members and Beneficiaries	1,436	1,222	17.51%
Disabled Members	0	0	N/A
Inactive Members	6,280	5,587	12.40%
Total Members	20,800	19,737	5.39%
Projected Annual Salaries of Active Members	\$ 581,385,381	\$ 557,094,081	4.36%
Annual Retirement Payments for Retired Members and Beneficiaries	\$ 24,700,732	\$ 20,240,539	22.04%
2. ASSETS AND LIABILITIES			
a. Market Value of Assets	\$ 1,310,451,038	\$ 1,305,036,408	0.41%
b. Actuarial Value of Assets	1,337,161,184	1,246,042,982	7.31%
c. Total Actuarial Accrued Liability	1,304,297,557	1,199,841,066	8.71%
d. Unfunded Actuarial Accrued Liability/(Surplus) [c - b]	\$ (32,863,627)	\$ (46,201,916)	(28.87%)
e. Funded Ratio (Actuarial Value of Assets) [b / c]	102.52%	103.85%	(1.28%)
f. Funded Ratio (Market Value of Assets) [a / c]	100.47%	108.77%	(7.63%)
3. CONTRIBUTION RATES AS A PERCENT OF PAYROLL			
Normal Cost	10.80%	10.45%	3.35%
Amortization of Unfunded Actuarial Accrued Liability	(0.50%)	(0.73%)	(31.51%)
Actuarial Required Contribution Rate	10.30%	9.72%	5.97%
Member Contribution Rate	(4.80%)	(4.80%)	0.00%
Employer Contribution Rate*	(7.49%)	(7.49%)	0.00%
Contribution Shortfall/(Margin)	(1.99%)	(2.57%)	(22.57%)
Additional State Contribution Amount	\$ 0	\$ 0	N/A

* 156% of employee contribution rate



SECTION 2 – SCOPE OF THE REPORT

This report presents the actuarial valuation results of the State Employees’ Retirement System Cash Balance Benefit Fund as of January 1, 2016. This valuation was prepared at the request of the Public Employees Retirement Board of the Nebraska Public Employees Retirement System.

Please pay particular attention to our actuarial certification letter, where the guidelines employed in the preparation of this report are outlined. We also comment on the sources and reliability of both the data and the actuarial assumptions upon which our findings are based. Those comments are the basis for our certification that this report is complete and accurate to the best of our knowledge and belief.

A summary of the findings which result from this valuation is presented in the previous section. Section 3 describes the assets and investment experience of the State Employees’ Retirement System Cash Balance Benefit Fund. Sections 4 and 5 describe how the obligations of the Plan are to be met under the actuarial cost method in use. Section 6 includes other information for financial reporting.

This report includes several appendices:

- Appendix A Schedules of valuation data classified by various categories of members.
- Appendix B A summary of the current benefit structure, as determined by the provisions of governing law on January 1, 2016.
- Appendix C A summary of the actuarial methods and assumptions used to estimate liabilities and determine contribution rates.
- Appendix D A glossary of actuarial terms.



SECTION 3 – ASSETS

In many respects, an actuarial valuation can be thought of as an inventory process. The inventory is taken as of the actuarial valuation date, which for this valuation is January 1, 2016. On that date, the assets available for the payment of benefits are appraised. The assets are compared with the liabilities of the Plan, which are generally in excess of assets. The actuarial process then leads to a method of determining the contributions needed by members and the employer in the future to balance the Fund assets and liabilities.

Market Value of Assets

The current market value represents the "snapshot" or "cash-out" value of the Plan assets as of the valuation date. In addition, the market value of assets provides a basis for measuring investment performance from time to time. Table 1 is a comparison of Plan assets at market value as of December 31, 2015 and December 31, 2014, in total and by investment category. Table 2 summarizes the change in the market value of assets from December 31, 2014 to December 31, 2015.

Actuarial Value of Assets

Neither the market value of assets, representing a "cash-out" value of State Employees' Retirement System Cash Balance Benefit Fund assets, nor the book values of assets, representing the cost of investments, may be the best measure of the Plan's ongoing ability to meet its obligations.

To arrive at a suitable value of assets for the actuarial valuation, a technique for determining the actuarial value of assets is used which dampens swings in the market value while still indirectly recognizing market values. Under the asset smoothing methodology, the difference between the actual and assumed investment return on the market value of assets is recognized evenly over a five-year period.

Table 3 shows the development of the actuarial value of assets (AVA) as of the valuation date.



SECTION 3 – ASSETS

TABLE 1

**STATE EMPLOYEES' RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND**

**MARKET VALUE OF ASSETS
by Investment Category**

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
1. Cash and Equivalents	\$ 106,899	\$ 106,041
2. Investments	1,344,007,069	1,312,398,060
3. Receivables and Prepays	64,123,793	65,421,966
4. Accounts Payable	<u>(97,786,723)</u>	<u>(72,889,659)</u>
5. Net Assets Available for Pension Benefits [1 + 2 + 3 + 4]	\$ 1,310,451,038	\$ 1,305,036,408



SECTION 3 – ASSETS

TABLE 2
STATE EMPLOYEES’ RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND
CHANGE IN MARKET VALUE OF ASSETS

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
1. Beginning Market Value of Assets	\$ 1,305,036,408	\$ 1,223,694,851
2. Contributions		
(a) Member (includes purchased service)	\$ 27,798,721	\$ 26,603,709
(b) Employer	43,339,706	41,455,919
(c) State appropriations	0	0
(d) Total	<u>\$ 71,138,427</u>	<u>\$ 68,059,628</u>
3. Transfers Between Plans		
(a) From Defined Contribution Plans	\$ 5,849,328	\$ 4,195,885
(b) Between Cash Balance Plans	0	0
(c) Net Transfers	<u>\$ 5,849,328</u>	<u>\$ 4,195,885</u>
4. Receivable Transfer from Defined Contribution Benefit Fund	\$ 0	\$ 0
5. Expenditures		
(a) Benefit payments and refunds	\$ 85,278,057	\$ 73,527,209
(b) Administrative expenses	1,079,197	910,460
(c) Total	<u>\$ 86,357,254</u>	<u>\$ 74,437,669</u>
6. Net Investment Income		
(a) Investment Income	\$ 19,087,794	\$ 86,415,338
(b) Investment Expenses	(4,303,665)	(2,891,625)
(c) Net Investment Income	<u>\$ 14,784,129</u>	<u>\$ 83,523,713</u>
7. Ending Market Value of Assets [1 + 2(d) + 3(c) + 4 - 5(c) + 6(c)]	\$ 1,310,451,038	\$ 1,305,036,408
8. Rate of Return on Market Value of Assets	1.1%	6.8%

**SECTION 3 – ASSETS****TABLE 3****STATE EMPLOYEES' RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND****DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS**

	Year End			
	12/31/2012	12/31/2013	12/31/2014	12/31/2015
1. Actuarial Value of Assets, Beginning of Year	\$ 743,970,954	\$ 1,009,414,476	\$ 1,130,203,298	\$ 1,246,042,982
2. Unrecognized Return Beginning of Year	\$ (41,475,927)	\$ 23,999,480	\$ 93,491,553	\$ 58,993,426
3. Contributions During Year				
(a) Member	\$ 20,863,102	\$ 25,109,315	\$ 26,603,709	\$ 27,798,721
(b) Employer	32,096,097	39,147,056	41,455,919	43,339,706
(c) State appropriations	0	0	0	0
(d) Total	\$ 52,959,199	\$ 64,256,371	\$ 68,059,628	\$ 71,138,427
4. Net Transfers	\$ 4,779,347	\$ 3,492,104	\$ 4,195,885	\$ 5,849,328
5. Receivable Transfer from Defined Contribution Benefit Fund	\$ 227,897,910	\$ 0	\$ 0	\$ 0
6. Benefit Payments During Year	\$ 46,687,002	\$ 64,841,779	\$ 73,527,209	\$ 85,278,057
7. Expected Investment Income on (1), (2), (3), (4) and (6) at 7.75%	\$ 54,863,622	\$ 80,200,114	\$ 94,787,992	\$ 100,825,067
8. Actual Return on Market Value, Net of All Expenses	\$ 91,969,475	\$ 187,374,199	\$ 82,613,253	\$ 13,704,932
9. Return to be Spread, End of Year [8 - 7]	\$ 37,105,853	\$ 107,174,085	\$ (12,174,739)	\$ (87,120,135)

Note: Information before 12/31/2013 was produced by prior actuary.



SECTION 3 – ASSETS

**TABLE 3
(continued)**

**STATE EMPLOYEES’ RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND**

8. Return to be Spread

<u>Year</u>	<u>Return to be Spread</u>	<u>Unrecognized Percent</u>	<u>Unrecognized Return</u>
2015	(\$87,120,135)	80%	(\$69,696,108)
2014	(12,174,739)	60%	(7,304,843)
2013	107,174,085	40%	42,869,634
2012	37,105,853	20%	7,421,171
			<u>(\$26,710,146)</u>

9. Total Market Value of Assets as of January 1, 2016 \$1,310,451,038

10. Total Actuarial Value of Assets as of January 1, 2016 \$1,337,161,184
[9 - 8]

11. Asset Ratios

(a) Actuarial Value to Market Value [10 / 9]	102.04%
(b) Market Value to Actuarial Value [9 / 10]	98.00%



SECTION 4 – SYSTEM LIABILITIES

In the previous section, an actuarial valuation was compared with an inventory process, and an analysis was given of the inventory of assets of the State Employees' Retirement System Cash Balance Benefit Fund as of the valuation date, January 1, 2016. In this section, the discussion will focus on the commitments (future benefit payments) of the Plan, which are referred to as its liabilities.

Table 4 contains an analysis of the actuarial present value of all future benefits (PVFB) for contributing members, inactive members, retirees and their beneficiaries.

The liabilities summarized in Table 4 include the actuarial present value of all future benefits expected to be paid with respect to each member. For an active member, this value includes the measurement of both benefits already earned and future benefits to be earned. For all members, active and retired, the value extends over benefits earnable and payable for the rest of their lives and for the lives of the surviving beneficiaries.

All liabilities reflect the benefit provisions in place as of January 1, 2016.

Actuarial Accrued Liability

A fundamental principle in financing the liabilities of a retirement program is that the cost of its benefits should be related to the period in which benefits are earned, rather than to the period of benefit distribution. An actuarial cost method is a mathematical technique that allocates the present value of future benefits into annual costs. In order to do this allocation, it is necessary for the funding method to "breakdown" the present value of future benefits into two components:

- (1) that which is attributable to the past and
- (2) that which is attributable to the future.

Actuarial terminology calls the part attributable to the past the "past service liability" or the "actuarial accrued liability." The portion allocated to the future is known as the present value of future normal costs, with the specific piece of it allocated to the current year being called the "normal cost." Table 5 contains the calculation of actuarial accrued liability for the State Employees' Retirement System Cash Balance Benefit Fund. The Entry Age Normal actuarial cost method is used to develop the actuarial accrued liability.



SECTION 4 – SYSTEM LIABILITIES

TABLE 4

**STATE EMPLOYEES' RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND**

**PRESENT VALUE OF FUTURE BENEFITS (PVFB)
AS OF JANUARY 1, 2016**

1. Active Employees	
(a) Retirement	\$ 1,088,970,598
(b) Withdrawal	224,952,845
(c) Death	30,022,531
(d) Disability	0
(e) Total	<u>\$ 1,343,945,974</u>
2. Inactive Vested Members	181,952,152
3. Inactive Nonvested Members	6,248,277
4. Disabled Members	0
5. Retirees	223,643,648
6. Beneficiaries	<u>6,482,982</u>
7. Total Present Value of Future Benefits [1(e) + 2 + 3 + 4 + 5 + 6]	\$ 1,762,273,033



SECTION 4 – SYSTEM LIABILITIES

TABLE 5

**STATE EMPLOYEES' RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND**

**ACTUARIAL ACCRUED LIABILITY
AS OF JANUARY 1, 2016**

1. Present Value of Future Benefits for Active Members	\$ 1,343,945,974
2. Present Value of Future Normal Costs for Active Members	
(a) Retirement benefit	\$ 245,022,448
(b) Termination benefit	205,351,392
(c) Pre-Retirement death benefit	7,601,636
(d) Disability benefit	0
(e) Total	\$ 457,975,476
3. Actuarial Accrued Liability for Active Members [1 - 2(e)]	\$ 885,970,498
4. Actuarial Accrued Liability for Inactive Members	418,327,059
5. Total Actuarial Accrued Liability [3 + 4]	1,304,297,557
6. Actuarial Value of Assets	1,337,161,184
7. Unfunded Actuarial Accrued Liability/(Surplus) [5- 6]	\$ (32,863,627)



SECTION 4 – SYSTEM LIABILITIES

TABLE 6
STATE EMPLOYEES' RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND
ACTUARIAL BALANCE SHEET

<u>ASSETS</u>	
Actuarial Value of Assets	\$ 1,337,161,184
Unfunded Actuarial Accrued Liability/(Surplus)	(32,863,627)
Present Value of Future Normal Costs	\$ <u>457,975,476</u>
Total Assets	\$ 1,762,273,033
<u>LIABILITIES</u>	
Present Value of Future Benefits	
Active members	
Retirement	\$ 1,088,970,598
Withdrawal	224,952,845
Death	30,022,531
Disability	<u>0</u>
Total	\$ 1,343,945,974
Inactive members	188,200,429
Retirees, disabilities and beneficiaries	<u>230,126,630</u>
Total Liabilities	\$ 1,762,273,033



SECTION 4 – SYSTEM LIABILITIES

TABLE 7

**STATE EMPLOYEES’ RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND**

ACTUARIAL GAIN/(LOSS)

Liabilities

1. Actuarial Accrued Liability as of January 1, 2015	\$ 1,199,841,066
2. Normal Cost During 2015	53,183,224
3. Benefit Payments During Plan Year Ending December 31, 2015	85,278,057
4. Transfers	5,849,328
5. Interest on items 1 - 4 at 7.75%	94,088,948
6. Dividend Granted in 2015	<u>35,892,320</u>
7. Expected Actuarial Accrued Liability as of January 1, 2016 [1 + 2 - 3 + 4 + 5 + 6]	\$ 1,303,576,829
8. Actuarial Accrued Liability as of January 1, 2016	\$ 1,304,297,557

Assets

9. Actuarial Value of Assets as of January 1, 2015	\$ 1,246,042,982
10. Contributions During Plan Year Ending December 31, 2015	71,138,427
11. Benefit Payments During Plan Year Ending December 31, 2015	85,278,057
12. Transfers	5,849,328
13. Interest at 7.75%	<u>96,253,076</u>
14. Expected Actuarial Value of Assets as of January 1, 2016 [9 + 10 - 11 + 12 + 13]	\$ 1,334,005,756
15. Actuarial Value of Assets as of January 1, 2016	\$ 1,337,161,184

Gain / (Loss)

16. Actuarial Gain / (Loss) on Liabilities [7 - 8]	\$ (720,728)
17. Actuarial Gain / (Loss) on Assets [15 - 14]	\$ 3,155,428
18. Total Actuarial Gain / (Loss) for Plan Year Ending December 31, 2015 [16 + 17]	\$ 2,434,700



SECTION 4 – SYSTEM LIABILITIES

TABLE 8

**STATE EMPLOYEES' RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND**

GAIN/(LOSS) ANALYSIS BY SOURCE

Liability Sources	Gain/(Loss)
Retirement	\$ (4,833,000)
Termination	786,000
Disability	0
Mortality	(243,000)
Salary	(299,000)
New Entrants/Rehires	(4,760,000)
Interest Credit	9,199,000
Miscellaneous	(571,000)
Total Liability Gain/(Loss)	\$ (721,000)
Asset Gain/(Loss)	\$ 3,156,000
Net Actuarial Gain/(Loss)	\$ 2,435,000



SECTION 4 – SYSTEM LIABILITIES

TABLE 9
STATE EMPLOYEES’ RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND
PROJECTED BENEFIT PAYMENTS
AS OF JANUARY 1, 2016

Plan Year Ending December 31,	Active Employees	Retired and Disabled Members and Beneficiaries	Total
2016	\$ 63,531,000	\$ 24,637,000	\$ 88,168,000
2017	70,587,000	24,390,000	94,977,000
2018	77,596,000	24,050,000	101,646,000
2019	83,922,000	23,610,000	107,532,000
2020	89,634,000	23,137,000	112,771,000
2021	94,634,000	22,650,000	117,284,000
2022	99,247,000	22,177,000	121,424,000
2023	103,962,000	21,781,000	125,743,000
2024	107,613,000	21,410,000	129,023,000
2025	110,007,000	20,528,000	130,535,000
2026	112,733,000	19,844,000	132,577,000
2027	116,056,000	19,255,000	135,311,000
2028	117,105,000	18,394,000	135,499,000
2029	118,921,000	17,538,000	136,459,000
2030	120,401,000	16,484,000	136,885,000
2031	121,871,000	15,458,000	137,329,000
2032	122,810,000	14,671,000	137,481,000
2033	123,498,000	13,672,000	137,170,000
2034	124,585,000	12,556,000	137,141,000
2035	125,540,000	11,134,000	136,674,000
2036	126,563,000	10,157,000	136,720,000
2037	127,014,000	9,415,000	136,429,000
2038	127,285,000	8,658,000	135,943,000
2039	127,781,000	7,895,000	135,676,000
2040	127,816,000	7,133,000	134,949,000
2041	128,003,000	6,383,000	134,386,000
2042	128,502,000	5,655,000	134,157,000
2043	128,874,000	4,957,000	133,831,000
2044	129,072,000	4,297,000	133,369,000
2045	129,008,000	3,682,000	132,690,000

Note: Cash flows are the expected future non-discounted payments to current members. These amounts assume members terminating before retirement eligibility will elect a lump sum distribution of their cash balance account. 50% of members eligible for retirement will elect a monthly annuity, payable for life with 5 years certain, and 50% will elect a lump sum distribution of their cash balance account. These numbers exclude refund payouts to any current nonvested inactive.



SECTION 5 – EMPLOYER CONTRIBUTIONS

The previous two sections were devoted to a discussion of the assets and liabilities of the State Employees' Retirement System Cash Balance Benefit Fund. A comparison of Tables 3 and 4 indicates that current assets fall short of meeting the present value of future benefits (total liability). This is expected in all but a completely closed fund, where no further contributions are anticipated. In an active system, there will almost always be a difference between the actuarial value of assets and total liabilities. This deficiency has to be made up by future contributions and investment returns. An actuarial valuation sets out a schedule of future contributions that will deal with this deficiency in an orderly fashion.

The method used to determine the incidence of the contributions in various years is called the actuarial cost method. Under an actuarial cost method, the contributions required to meet the difference between current assets and current liabilities are allocated each year between two elements: (1) the normal cost rate and (2) the unfunded actuarial accrued liability contribution rate.

The term "fully funded" is often applied to a system in which contributions at the normal cost rate are sufficient to pay for the benefits of existing employees as well as for those of new employees. More often than not, systems are not fully funded, either because of past benefit improvements that have not been completely funded or because of actuarial deficiencies that have occurred because experience has not been as favorable as anticipated by the actuarial assumptions. Under these circumstances, an unfunded actuarial accrued liability (UAAL) exists. Likewise, when the actuarial value of assets is greater than the actuarial accrued liability, a surplus exists.

Description of Contribution Rate Components

The Entry Age Normal (EAN) actuarial cost method is used for the valuation. Under that method, the normal cost for each year from entry age to assumed exit age is a constant percentage of the member's year by year projected compensation. The portion of the present value of future benefits not provided by the present value of future normal costs is the actuarial accrued liability. The unfunded actuarial accrued liability/(surplus) represents the difference between the actuarial accrued liability and the actuarial value of assets as of the valuation date. The unfunded actuarial accrued liability is calculated each year and reflects experience gains and losses.

In general, contributions are computed in accordance with a level percent-of-payroll funding objective. The contribution rate based on the January 1, 2016 actuarial valuation will be used to determine the actuarial required employer contribution rate to the State Employees' Retirement System Cash Balance Benefit Fund for the plan year ending December 31, 2016. Any additional State contributions are expected to be deposited on July 1, 2017 (State fiscal year 2018). In this context, the term "contribution rate" means the percentage, which is applied to a particular active member payroll to determine the actual employer contribution amount (i.e., in dollars) for the group.

Contribution Rate Summary

In Table 10 the amortization payment related to the unfunded actuarial accrued liability/(surplus), as of January 1, 2016, is developed. Table 11 develops the actuarial required contribution rate for the State Employees' Retirement System Cash Balance Benefit Fund and the amount of any additional required State contributions.

The contribution rates shown in this report are based on the actuarial assumptions and cost methods described in Appendix C.



SECTION 5 – EMPLOYER CONTRIBUTIONS

TABLE 10

**STATE EMPLOYEES’ RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND**

SCHEDULE OF AMORTIZATION BASES

Amortization Bases	Original Amount	January 1, 2016 Remaining Payments	Date of Last Payment	Outstanding Balance as of January 1, 2016	Annual Contribution*
2016 Unfunded Actuarial Accrued Liability Base	(32,863,627)	25	1/1/2041	(32,863,627)	(2,902,765)
Total				\$ (32,863,627)	\$ (2,902,765)

* Contribution amount reflects mid-year timing.

1. Total UAAL Amortization Payments	\$ (2,902,765)
2. Projected Payroll for 2016 Plan Year	\$ 581,385,381
3. UAAL Amortization Payment Rate	(0.50%)

Per State Statute Sect. 84-1319 (4)(b), because the UAAL as of January 1, 2016 is zero or less than zero, all prior amortization bases are considered fully funded and the UAAL is reinitialized.



SECTION 5 – EMPLOYER CONTRIBUTIONS

TABLE 11

**STATE EMPLOYEES' RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND**

**ACTUARIAL REQUIRED CONTRIBUTION RATE
and
DEVELOPMENT OF ADDITIONAL STATE CONTRIBUTION**

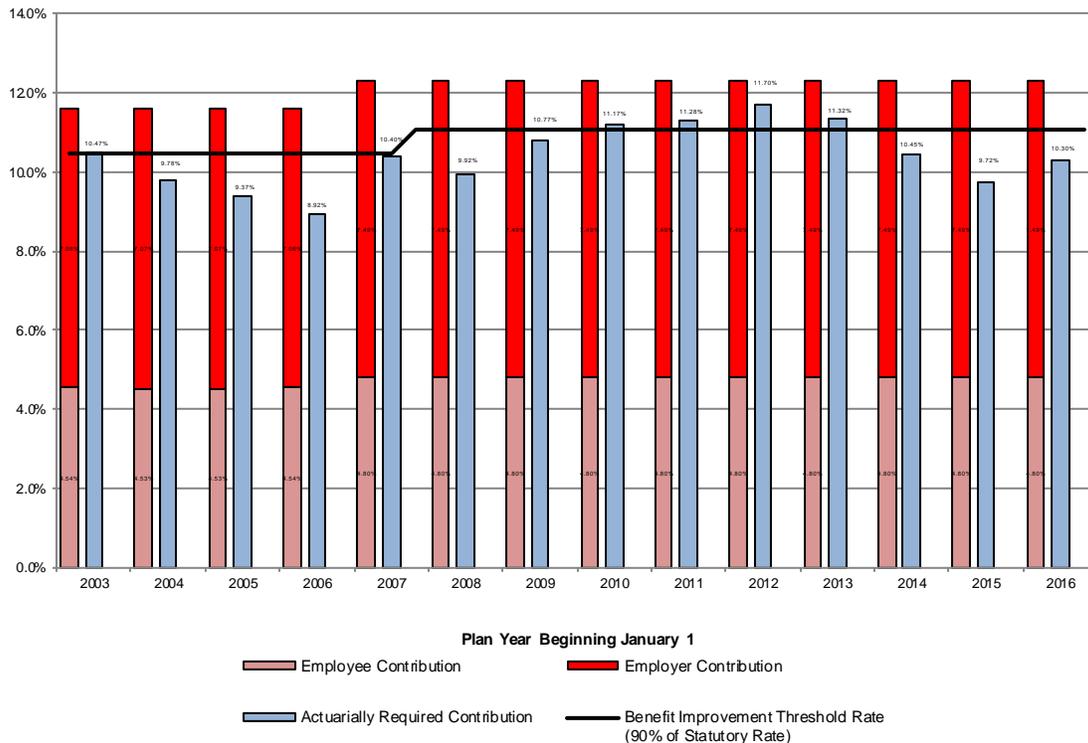
1. Normal Cost	
(a) Amount	\$ 57,325,508
(b) Expected pay for current actives	530,749,752
(c) Normal Cost Rate as % of pay	10.80%
2. Amortization Cost	
(a) Amount	(2,902,765)
(b) Expected pay for all actives	581,385,381
(c) Amortization Rate as % of pay	(0.50%)
3. Total Actuarial Required Contribution Rate [1(c) + 2(c)]	10.30%
4. Statutory Contribution Rates	
(a) Member	4.80%
(b) Employer (156% of Member)	7.49%
(c) Total	<u>12.29%</u>
5. Additional Required State Contribution [3 - 4(c), not less than 0.00%]	0.00%
6. Expected pay for all actives during 2016	581,385,381
7. Additional Required State Contribution for FYE 2018 [5 * 6 * 1.0775 ⁻⁵ , but not less than 0]	\$ 0



SECTION 5 – EMPLOYER CONTRIBUTIONS

TABLE 12
STATE EMPLOYEES’ RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND
HISTORICAL CONTRIBUTION RATES

Plan Year	Statutory Contribution Rate			Actuarial Rate	Margin/ (Shortfall)
	Employee	Employer	Total		
2003	4.54%	7.08%	11.62%	10.47%	1.15%
2004	4.53%	7.07%	11.60%	9.78%	1.82%
2005	4.53%	7.07%	11.60%	9.37%	2.23%
2006	4.54%	7.08%	11.62%	8.92%	2.70%
2007	4.80%	7.49%	12.29%	10.40%	1.89%
2008	4.80%	7.49%	12.29%	9.92%	2.37%
2009	4.80%	7.49%	12.29%	10.77%	1.52%
2010	4.80%	7.49%	12.29%	11.17%	1.12%
2011	4.80%	7.49%	12.29%	11.28%	1.01%
2012	4.80%	7.49%	12.29%	11.70%	0.59%
2013	4.80%	7.49%	12.29%	11.32%	0.97%
2014	4.80%	7.49%	12.29%	10.45%	1.84%
2015	4.80%	7.49%	12.29%	9.72%	2.57%
2016	4.80%	7.49%	12.29%	10.30%	1.99%





SECTION 5 – EMPLOYER CONTRIBUTIONS

TABLE 13

**STATE EMPLOYEES’ RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND**

**FUNDING EXCESS AVAILABLE FOR
BENEFIT IMPROVEMENT**

1. Total Statutory Contribution Rate	12.29%
2. Benefit Improvement Threshold Rate (90% of (1))	11.06%
3. Actuarially Required Contribution Rate	10.30%
4. Unfunded Actuarial Accrued Liability	\$ (32,863,627)
5. Requirements for Using Excess for Benefit Improvements	
a. Rate Sufficiency: (3) < (2)	Yes
b. No UAAL: (4) < 0	Yes
6. Funding Excess Available for Benefit Improvements	
As a rate of Pay: (2) - (3), not less than 0%	0.76%



SECTION 5 – EMPLOYER CONTRIBUTIONS

TABLE 14

**STATE EMPLOYEES’ RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND**

DIVIDEND DETERMINATION

Each year after the annual actuarial valuation results are received, the Board determines, based on the recommendation of the actuary, if a benefit improvement can be made. If it is determined that the benefit improvement should be a dividend payment to individual member Cash Balance accounts and that sufficient reserves exist, the dividend granted must meet the following criteria:

- A. The plan must maintain the 90% Benefit Threshold Rate after granting any dividend.
- B. There must be a minimum 100% Funded Ratio on both the Funded Basis and the Current Value Basis, both before and after the dividend is granted.
- C. No dividend will be granted for a year where the annual interest credit rate exceeds the actuarial valuation interest rate.
- D. The dividend plus the annual interest credit during the year cannot exceed 8.0% unless a majority of the PERB agrees.

1. January 1, 2016 Valuation Results Before Dividend:

	<u>Funded Basis</u>	<u>Current Value Basis</u>
(a) Liability	\$1,304,297,557	\$1,316,203,774
(b) Assets	1,337,161,184	1,310,451,038
(c) (Deficit)/Reserve [(b) - (a)]	<u>\$32,863,627</u>	<u>(\$5,752,736)</u>

2. Amount Available for Dividend \$0
(Lesser of 1(c) on Funded Basis or Current Value Basis)

3. Account Balances as of December 31, 2016 \$1,086,077,144

4. Maximum Dividend [2 / 3] 0.00%

5. Annual Interest Credit for 2015 5.00%

6. 2015 Interest Credit Plus Maximum Dividend [4 + 5] 5.00%

7. January 1, 2016 Valuation Results After Maximum Dividend:

(a) Actuarial Contribution Rate	10.30%
(b) Benefit Improvement Threshold Rate	11.06%
(c) Is (a) < (b)? [Criteria A]	Yes
(d) Funded Ratio on a Funded Basis	102.5%
(e) Funded Ratio on a Current Value Basis	99.6%
(f) Are (d) and (e) both at least 100%? [Criteria B]	No

8. Is (5) < actuarial assumed interest rate (7.75%)? **[Criteria C]** Yes

9. Is (6) greater than 8.00%?* **[Criteria D]** No

- If yes, recalculate the dividend to meet criteria (8.00% - 5.00%) N/A

* Any dividend over 3% can only be granted if the majority of the PERB agrees.



SECTION 6 – OTHER INFORMATION

The actuarial accrued liability is a measure intended to help the reader assess (i) a retirement system's funded status on a going concern basis and (ii) progress being made toward accumulating the assets needed to pay benefits as due. Allocation of the actuarial present value of projected benefits between past and future service was based on service using the Entry Age Normal actuarial cost method. Assumptions, including projected pay increases, were the same as used to determine the State Employees' Retirement System Cash Balance Benefit Fund's level percent of payroll annual required contribution between entry age and assumed exit age. Entry age was established by subtracting credited service from current age on the valuation date. The Entry Age Normal actuarial accrued liability was determined as part of an actuarial valuation of the plan as of January 1, 2016. The actuarial assumptions used in determining the actuarial accrued liability can be found in Appendix C.

The Schedule of Funding Progress provides information about whether the financial strength of the Plan is improving or deteriorating over time.

The Schedule of Contributions from Employers and Other Contributing Entities provides historical information about the annual required contribution (ARC) and the percentage of the ARC that was actually contributed.

In 2012, GASB issued the final version of GASB Statements Numbers 67 and 68 which superseded the previous GASB Standards, Numbers 25 and 27. GASB 67, which applies to the retirement system, was first effective for the plan year ending December 31, 2014. GASB 68, which applies to employer reporting, was first effective for fiscal years beginning after June 15, 2014. This accounting information will be provided in reports, separate from this actuarial valuation report which was prepared to address the funding of the Plan.



SECTION 6 – OTHER INFORMATION

TABLE 15

**STATE EMPLOYEES’ RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b - a) / c]
December 31, 2015	\$1,337,161,184	\$1,304,297,557	(\$32,863,627)	102.5%	\$581,385,381	(5.7%)
December 31, 2014	1,246,042,982	1,199,841,066	(46,201,916)	103.9%	557,094,081	(8.3%)
December 31, 2013	1,130,203,298	1,139,772,796	9,569,498	99.2%	535,526,147	1.8%
December 31, 2012	1,009,414,476	1,077,957,772	68,543,296	93.6%	500,493,490	13.7%
December 31, 2011	743,970,954	813,285,510	69,314,556	91.5%	458,826,702	15.1%
December 31, 2010	714,131,805	762,680,399	48,548,594	93.6%	449,206,006	10.8%
December 31, 2009	670,591,669	714,408,952	43,817,283	93.9%	454,776,381	9.6%
December 31, 2008	637,539,094	658,249,398	20,710,304	96.9%	433,397,447	4.8%

Note: Information before December 31, 2013 was produced by the prior actuary.



SECTION 6 – OTHER INFORMATION

TABLE 16

**STATE EMPLOYEES’ RETIREMENT SYSTEM
CASH BALANCE BENEFIT FUND**

**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS
AND OTHER CONTRIBUTING ENTITIES**

Plan Year Ending	Annual Required Contributions			Percent Contributed
	State	State Additional	Total	
December 31, 2015	\$27,409,029	\$0	\$27,409,029	158%
December 31, 2014	30,257,227	0	30,257,227	137%
December 31, 2013	32,632,176	0	32,632,176	120%
December 31, 2012	32,096,097	0	32,096,097	100%
December 31, 2011	31,088,483	0	31,088,483	100%
December 31, 2010	30,679,003	0	30,679,003	100%
December 31, 2009	30,321,032	0	30,321,032	100%
December 31, 2008	29,208,772	0	29,208,772	100%

Note: Information prior to December 31, 2013 was produced by the prior actuary.

<u>Actuarial Assumptions and Methods</u>	
Valuation Date	December 31, 2015
Actuarial Cost Method	Entry Age
Amortization Method	Level dollar amount, closed
Equivalent Single Amortization Period	25 years
Asset Valuation Method	5 year smoothed market
Actuarial Assumptions	
Investment rate of return*	7.75%
Projected Salary increases*	4.0% - 5.4%
*Includes inflation at	3.25%
Cost-of-living adjustment	None, except 2.50% per year is used for retirees electing annuity payments with a COLA feature.

**APPENDIX A – MEMBERSHIP DATA****MEMBER DATA RECONCILIATION**

	Active Members	Inactive Vested	Inactive Non-vested	Retirees and Beneficiaries	Total
As of January 1, 2015	12,928	2,116	3,471	1,222	19,737
Changes in status					
a) Retirement	(148)	(57)	0	205	0
b) Death	0	0	0	(17)	(17)
c) Non-vested terminations	(552)	0	552	0	0
d) Vested terminations	(672)	672	0	0	0
e) Contribution refund	(681)	(331)	(432)	0	(1,444)
f) Beneficiaries in receipt	0	0	0	14	14
g) Disability retirements	0	0	0	0	0
h) Return to active service	133	(51)	(82)	0	0
i) Expired benefits	0	0	0	(19)	(19)
j) Data adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total changes in status	(1,920)	233	38	183	(1,466)
Transferred from DC Plan	0	0	0	31	31
New entrants	2,076	51	371	0	2,498
Net change	156	284	409	214	1,063
As of January 1, 2016	13,084	2,400	3,880	1,436	20,800



APPENDIX A – MEMBERSHIP DATA

SUMMARY OF MEMBERSHIP DATA

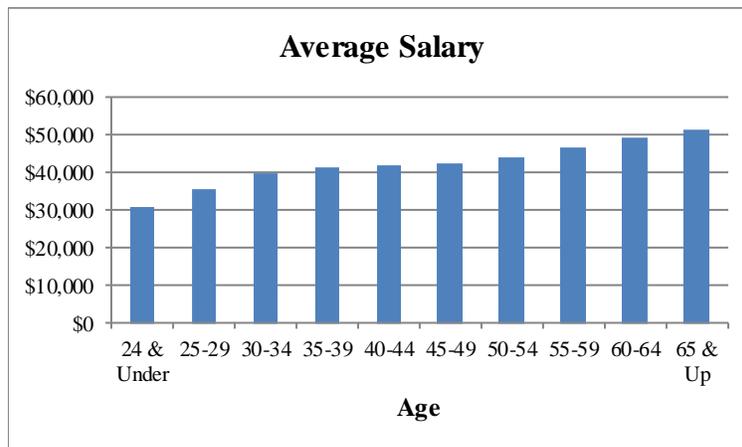
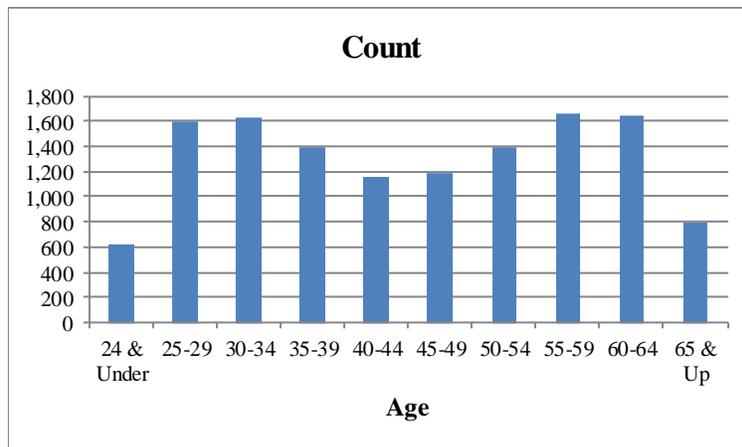
A. ACTIVE MEMBERS	January 1, 2016	January 1, 2015	% Change
1. Number of Active Members	13,084	12,928	1.2%
2. Reported Salary	\$ 527,247,939	\$ 507,278,739	3.9%
3. Accumulated Contributions			
(a) Employee Cash Balance Account	\$ 346,779,813	\$ 334,106,755	3.8%
(b) Employer Cash Balance Account	551,096,902	531,068,565	3.8%
(c) Total Cash Balance Account	\$ 897,876,715	\$ 865,175,320	3.8%
4. Active Member Averages			
(a) Age	44.9	45.2	(0.7%)
(b) Service	9.2	9.4	(2.1%)
(c) Compensation	\$ 40,297	\$ 39,239	2.7%
(d) Cash Balance Account	\$ 68,624	\$ 66,923	2.5%
B. INACTIVE MEMBERS			
1. Number of Inactive Members			
(a) System vested	2,400	2,116	13.4%
(b) System nonvested (refund only)	3,880	3,471	11.8%
(c) Total	6,280	5,587	12.4%
2. Total Vested Cash Balance Account	\$ 181,952,152	\$ 154,470,443	17.8%
3. Inactive Members Averages			
(a) Age (vesteds only)	50.8	51.2	(0.8%)
(b) Vested Cash Balance Account	\$ 75,813	\$ 73,001	3.9%
C. RETIREES, DISABLEDS, AND BENEFICIARIES			
1. Number of Members Receiving Benefits			
(a) Retired	1,359	1,156	17.6%
(b) Disabled	0	0	0.0%
(c) Beneficiaries	77	66	16.7%
(d) Total	1,436	1,222	17.5%
2. Total Annual Benefit Payments			
(a) Retired	\$ 23,773,139	\$ 19,434,486	22.3%
(b) Disabled	0	0	0.0%
(c) Beneficiaries	927,593	806,053	15.1%
(d) Total	\$ 24,700,732	\$ 20,240,539	22.0%



APPENDIX A – MEMBERSHIP DATA

**ACTIVE MEMBERS
AS OF JANUARY 1, 2016**

Age	Count of Members			Reported Salary		
	Male	Female	Total	Male	Female	Total
24 & Under	272	354	626	\$ 7,009,860	\$ 7,349,982	\$ 14,359,842
25-29	743	860	1,603	24,431,968	26,205,376	50,637,344
30-34	692	935	1,627	27,437,281	32,859,820	60,297,101
35-39	592	808	1,400	24,565,571	29,969,612	54,535,183
40-44	464	697	1,161	19,666,788	26,709,283	46,376,071
45-49	503	685	1,188	21,818,087	26,196,331	48,014,418
50-54	551	844	1,395	25,751,960	33,696,251	59,448,211
55-59	644	1,014	1,658	32,082,058	42,835,364	74,917,422
60-64	720	918	1,638	38,097,544	40,857,108	78,954,652
65 & Up	371	417	788	21,647,453	18,060,242	39,707,695
Total	5,552	7,532	13,084	\$ 242,508,570	\$ 284,739,369	\$ 527,247,939





APPENDIX A – MEMBERSHIP DATA

**AGE AND SERVICE DISTRIBUTION
AS OF JANUARY 1, 2016**

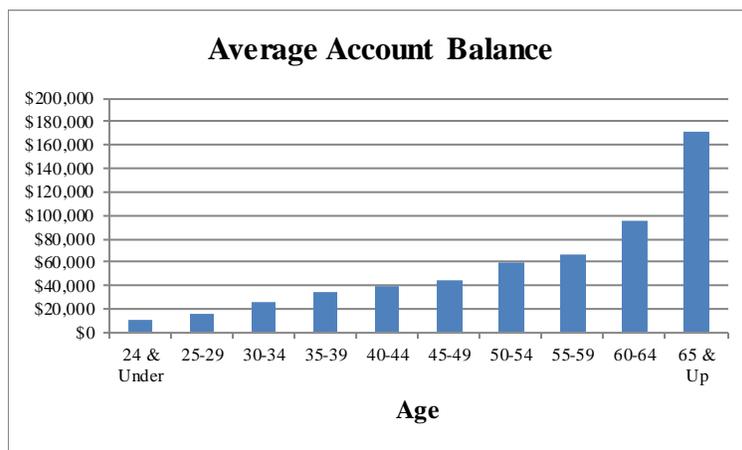
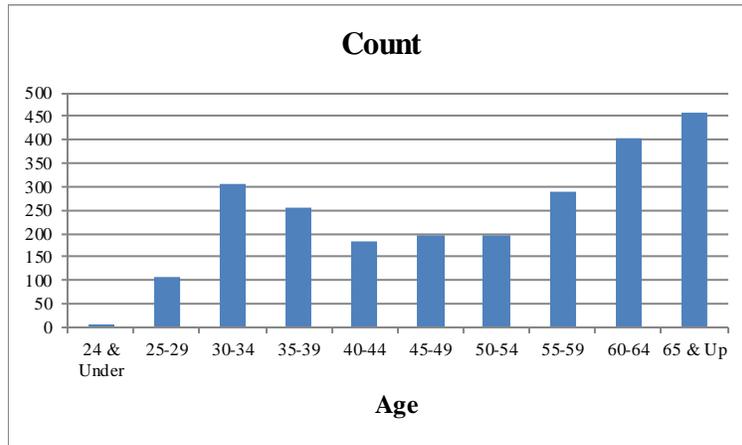
Age		0-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 34	Total
24 & Under	Number	624	2	0	0	0	0	0	0	626
	Reported Salary	\$ 14,287,184	\$ 72,658	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 14,359,842
	Average Sal.	\$ 22,896	\$ 36,329	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 22,939
25-29	Number	1,445	158	0	0	0	0	0	0	1,603
	Reported Salary	\$ 44,143,242	\$ 6,494,102	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 50,637,344
	Average Sal.	\$ 30,549	\$ 41,102	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 31,589
30-34	Number	1,035	529	63	0	0	0	0	0	1,627
	Reported Salary	\$ 34,166,378	\$ 23,437,441	\$ 2,693,282	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 60,297,101
	Average Sal.	\$ 33,011	\$ 44,305	\$ 42,751	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 37,060
35-39	Number	708	446	241	5	0	0	0	0	1,400
	Reported Salary	\$ 22,757,427	\$ 20,148,802	\$ 11,338,434	\$ 290,520	\$ 0	\$ 0	\$ 0	\$ 0	\$ 54,535,183
	Average Sal.	\$ 32,143	\$ 45,177	\$ 47,047	\$ 58,104	\$ 0	\$ 0	\$ 0	\$ 0	\$ 38,954
40-44	Number	566	306	236	52	1	0	0	0	1,161
	Reported Salary	\$ 19,266,245	\$ 13,303,474	\$ 11,122,000	\$ 2,622,546	\$ 61,806	\$ 0	\$ 0	\$ 0	\$ 46,376,071
	Average Sal.	\$ 34,039	\$ 43,475	\$ 47,127	\$ 50,434	\$ 61,806	\$ 0	\$ 0	\$ 0	\$ 39,945
45-49	Number	507	311	204	113	49	4	0	0	1,188
	Reported Salary	\$ 16,398,489	\$ 13,400,527	\$ 9,622,775	\$ 5,871,450	\$ 2,479,397	\$ 241,780	\$ 0	\$ 0	\$ 48,014,418
	Average Sal.	\$ 32,344	\$ 43,089	\$ 47,170	\$ 51,960	\$ 50,600	\$ 60,445	\$ 0	\$ 0	\$ 40,416
50-54	Number	499	290	222	111	175	96	2	0	1,395
	Reported Salary	\$ 17,396,478	\$ 12,285,081	\$ 9,777,202	\$ 5,535,897	\$ 8,928,056	\$ 5,425,862	\$ 99,635	\$ 0	\$ 59,448,211
	Average Sal.	\$ 34,863	\$ 42,362	\$ 44,041	\$ 49,873	\$ 51,017	\$ 56,519	\$ 49,818	\$ 0	\$ 42,615
55-59	Number	438	298	220	124	142	344	87	5	1,658
	Reported Salary	\$ 15,271,033	\$ 11,995,727	\$ 9,782,865	\$ 5,835,611	\$ 7,439,771	\$ 19,366,366	\$ 4,984,277	\$ 241,772	\$ 74,917,422
	Average Sal.	\$ 34,865	\$ 40,254	\$ 44,468	\$ 47,061	\$ 52,393	\$ 56,298	\$ 57,291	\$ 48,354	\$ 45,185
60-64	Number	305	267	203	144	123	184	398	14	1,638
	Reported Salary	\$ 11,696,654	\$ 11,206,472	\$ 8,875,092	\$ 6,654,897	\$ 6,310,296	\$ 9,560,561	\$ 23,802,486	\$ 848,194	\$ 78,954,652
	Average Sal.	\$ 38,350	\$ 41,972	\$ 43,720	\$ 46,215	\$ 51,303	\$ 51,960	\$ 59,805	\$ 60,585	\$ 48,202
65 & Up	Number	83	135	114	57	70	88	100	141	788
	Reported Salary	\$ 3,059,848	\$ 5,624,605	\$ 4,864,054	\$ 2,394,246	\$ 3,313,990	\$ 4,710,857	\$ 6,262,023	\$ 9,478,072	\$ 39,707,695
	Average Sal.	\$ 36,866	\$ 41,664	\$ 42,667	\$ 42,004	\$ 47,343	\$ 53,532	\$ 62,620	\$ 67,220	\$ 50,390
Total	Number	6,210	2,742	1,503	606	560	716	587	160	13,084
	Reported Salary	\$ 198,442,978	\$ 117,968,889	\$ 68,075,704	\$ 29,205,167	\$ 28,533,316	\$ 39,305,426	\$ 35,148,421	\$ 10,568,038	\$ 527,247,939
	Average Sal.	\$ 31,955	\$ 43,023	\$ 45,293	\$ 48,193	\$ 50,952	\$ 54,896	\$ 59,878	\$ 66,050	\$ 40,297



APPENDIX A – MEMBERSHIP DATA

**INACTIVE VESTED MEMBERS
AS OF JANUARY 1, 2016**

Age	Count of Members			Account Balances		
	Male	Female	Total	Male	Female	Total
24 & Under	1	6	7	\$ 3,482	\$ 67,301	\$ 70,783
25-29	49	59	108	884,614	850,881	1,735,495
30-34	127	179	306	3,210,191	4,549,160	7,759,351
35-39	102	153	255	3,759,209	5,076,406	8,835,615
40-44	78	104	182	3,315,147	3,850,315	7,165,462
45-49	75	119	194	4,096,335	4,715,174	8,811,509
50-54	76	122	198	5,139,211	6,565,002	11,704,213
55-59	107	183	290	8,148,946	11,138,419	19,287,365
60-64	160	244	404	19,053,459	19,330,365	38,383,824
65 & Up	<u>218</u>	<u>238</u>	<u>456</u>	<u>50,074,917</u>	<u>28,123,618</u>	<u>78,198,535</u>
Total	993	1,407	2,400	\$ 97,685,511	\$ 84,266,641	\$ 181,952,152

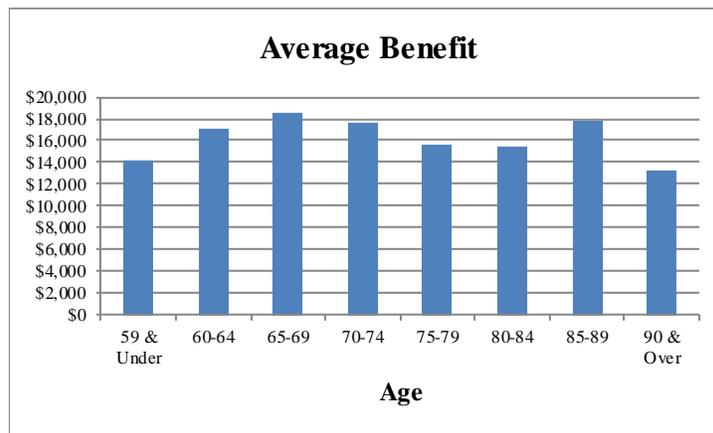
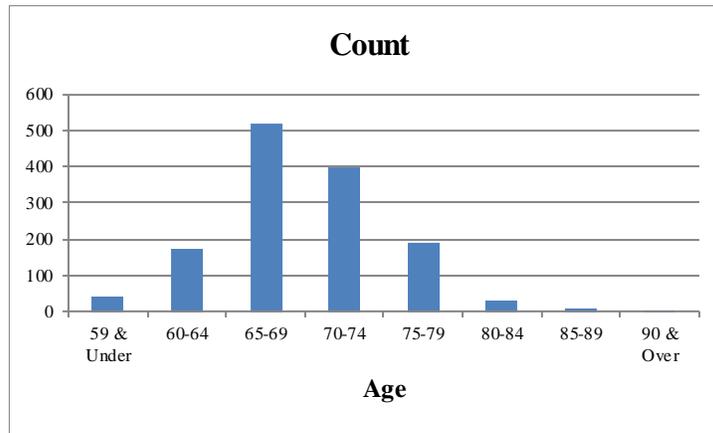




APPENDIX A – MEMBERSHIP DATA

**RETIRED MEMBERS
AS OF JANUARY 1, 2016**

Age	Count of Members			Annual Benefits		
	Male	Female	Total	Male	Female	Total
59 & Under	16	25	41	\$ 241,362	\$ 342,095	\$ 583,457
60-64	70	102	172	1,314,787	1,617,351	2,932,138
65-69	246	274	520	5,425,844	4,236,200	9,662,044
70-74	186	209	395	3,955,992	3,026,391	6,982,383
75-79	98	94	192	1,850,745	1,145,708	2,996,453
80-84	14	18	32	293,196	203,828	497,024
85-89	0	6	6	0	106,406	106,406
90 & Over	0	1	1	0	13,234	13,234
Total	630	729	1,359	\$ 13,081,926	\$ 10,691,213	\$ 23,773,139

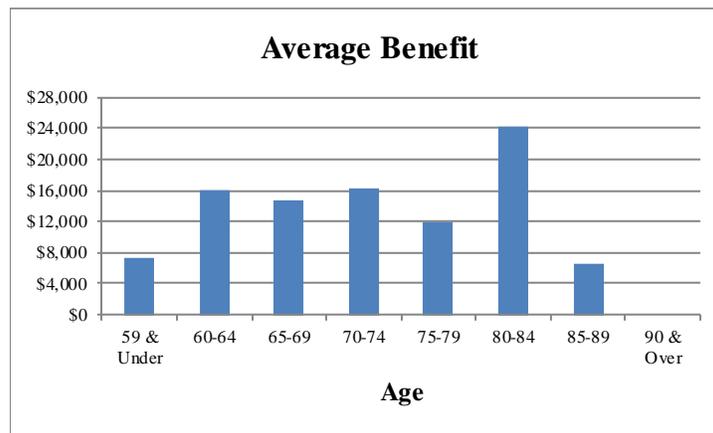
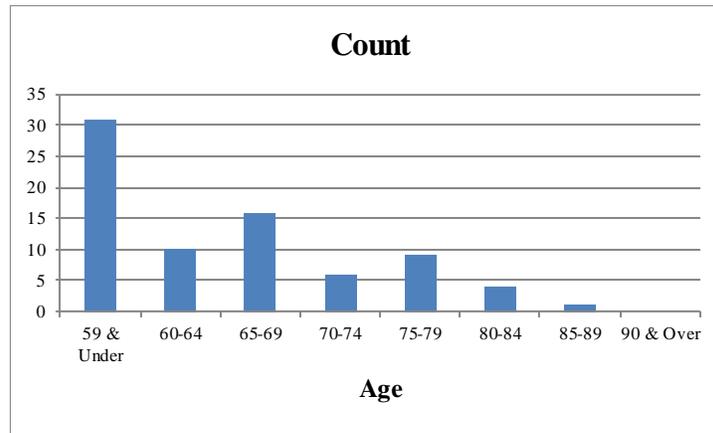




APPENDIX A – MEMBERSHIP DATA

**BENEFICIARIES RECEIVING BENEFITS
AS OF JANUARY 1, 2016**

Age	Count of Members			Annual Benefits		
	Male	Female	Total	Male	Female	Total
59 & Under	11	20	31	\$ 94,899	\$ 129,703	\$ 224,602
60-64	3	7	10	13,829	145,959	159,788
65-69	2	14	16	36,264	198,329	234,593
70-74	2	4	6	19,797	78,078	97,875
75-79	1	8	9	16,637	90,692	107,329
80-84	0	4	4	0	96,892	96,892
85-89	0	1	1	0	6,514	6,514
90 & Over	0	0	0	0	0	0
Total	19	58	77	\$ 181,426	\$ 746,167	\$ 927,593





APPENDIX B – SUMMARY OF PLAN PROVISIONS

Membership

All permanent, full-time employees of the State who work on-half or more of the regularly scheduled hours during each pay period shall begin immediate participation in the State Employees' Retirement System as of January 1, 2007 or date of hire, if later. All permanent, part-time employees who have attained the age of eighteen may exercise the option to begin immediate participation in the State Employees' Retirement System.

Existing members of the State Employees' Retirement System may elect, during the period beginning November 1, 2007 and ending December 31, 2007 to participate in the Cash Balance Benefit Fund. If no election is made by December 31, 2007, the member shall be treated as though he or she elected to continue participating in the Defined Contribution Plan as provided in the State Employees' Retirement Act.

Existing members of the State Employees' Retirement System may elect, during the period beginning October 1, 2002, and ending December 31, 2002, to participate in the Cash Balance Benefit Fund. If no election is made by January 1, 2003, the member shall be treated as though he or she elected to continue participating in the Defined Contribution Plan as provided in the State Employees' Retirement Act. For a member who first participates in the retirement system on or after January 1, 2003, he or she shall automatically participate in the Cash Balance Benefit Fund subject to plan eligibility requirements.

Compensation Considered

Compensation means gross wages or salaries payable to the member for personal services performed during the plan year, overtime pay, member retirement contributions, and amounts contributed by the member to plans under sections 125, 403(b) and 457 of the Internal Revenue Code or any other section of the code which defers or excludes such amounts from income.

Member Contributions

Members of the State Employees' Retirement System shall contribute an amount equal to four and eight-tenths percent (4.8%) of annual compensation to the fund. The member contribution shall be credited to the employee cash balance account.

Employer Contributions

The State shall contribute at a rate of 156% of the members' contributions to the fund. The State contribution shall be credited to the employer cash balance account.

Interest Credit Rate

Interest credit rate means the greater of (a) five percent or (b) the applicable federal mid-term rate as published by the Internal Revenue Service as of the first day of the calendar quarter for which interest credits are credited, plus one and one-half percent, such rate to be compounded annually.

Interest Credits

Interest credits means the amount credited to the employee cash balance account and the employer cash balance account daily. Such interest credit for each account shall be determined by applying the daily portion of the interest credit rate to the account balance at the end of the previous day.

Retirement Age

A member is eligible for retirement after attaining age 55.



APPENDIX B – SUMMARY OF PLAN PROVISIONS

Service

Service is defined to mean the actual total length of employment with the State and is not interrupted by a) temporary or seasonal suspension of service that does not terminate the member's employment, b) leave of absence authorized by the State for no longer than twelve months, c) leave of absence due to disability or d) leave due to military service.

Retirement Allowance

Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the accumulated employee and employer cash balance accounts including interest credit, annuitized for payment in the normal form. Also available are additional forms of payment allowed under the plan which are actuarially equivalent to the normal form including the option of a full lump sum or partial lump sum.

Normal Form of Payment

The normal form of payment under the Cash Balance Benefit Fund is a single life annuity with five-year certain, payable monthly. Members will have the option to convert their cash balance account to a monthly annuity with built in cost-of-living adjustments of 2.5% annually. This monthly benefit and all other options allowed under the Plan will be of actuarial equivalence to the accumulated employee and employer cash balance accounts including interest credits.

Optional Form of Payment

Optional forms of payment include a lump sum and the following annuities (with or without a 2.5% COLA): life annuity, modified cash refund, certain and life annuity (5, 10 or 15 years), certain only annuity (5, 10, 15 or 20 years) and joint and survivor annuity (50%, 75% or 100%).

Deferred Vested Allowance

A member who terminates with at least 3 years of participation in the system, including eligibility and vesting credit, may choose to leave his employee and employer cash balance accounts in the Plan and be eligible to receive a vested monthly allowance at retirement age or request a distribution of his employee and employer cash balance accounts plus interest credit, with no future benefit payable from the plan.

Severance Benefits

A member who terminates with less than 3 years of participation in the system, including eligibility and vesting credit, may elect to receive a distribution of his/her employee cash balance account including interest credit, with no future benefit payable from the plan.

Disability Allowance

If a member becomes disabled prior to retirement, the member shall receive the total amount of his/her accumulated employee and employer cash balance accounts including interest credits, as a lump sum or converted into a monthly annuity, as defined under the retirement allowance.

Pre-retirement Death Allowance

If a member dies prior to retirement, the surviving spouse, designated beneficiary (if different), or estate shall receive the total amount of his/her accumulated employee and employer cash balance accounts including interest credit, as a lump sum or converted into a monthly annuity, as defined under the retirement allowance.



APPENDIX B – SUMMARY OF PLAN PROVISIONS

Defined Contribution Transfers at Retirement

Upon retirement, members participating in the Defined Contribution Benefit Fund may elect to annuitize their accumulated account balance and receive a monthly benefit payment from the Cash Balance Benefit Fund. The accumulated account balance is transferred from the Defined Contribution Plan to the Cash Balance Benefit Fund upon the retirement of a Defined Contribution member electing an annuity. The actuarial assumptions used to convert the accumulated account balance to monthly income are (i) the 1994 Group Annuity Mortality Table with a 50% male / 50% female mix, and (ii) the interest rate in accordance with Nebraska State Statute 84-1319.

Benefit Improvements

In accordance with Section 84-1319 of the Nebraska State Statutes, the Public Employees' Retirement Board may grant benefit improvements if the unfunded actuarial accrued liability is less than zero, but in no event will such improvement result in an actuarially required contribution rate in excess of 90% of the total statutory contribution rate.

Dividend Policy

Under Nebraska Statutes, the Board may grant a dividend in addition to the regular interest credit if the UAAL is less than \$0 (i.e. a surplus exists) and the actuarial contribution after the extra dividend is no more than 90% of the scheduled contribution rate. Additionally, the Board has adopted a policy that also requires that the Accumulated Benefit Obligation be completely funded.

Changes in Plan Provisions Since the Prior Year

There have been no changes in plan provisions since the prior valuation.



APPENDIX C – SUMMARY OF ACTUARIAL ASSUMPTIONS

A. ACTUARIAL METHODS

- 1. Calculation of Normal Cost and Actuarial Accrued Liability:** The method used to determine the normal cost and actuarial accrued liability was the Entry Age Actuarial Cost Method described below.

Entry Age Actuarial Cost Method

Projected pension benefits were determined for all active members under age 80. Cost factors designed to produce annual costs as a constant percentage of each member's expected compensation in each year from the assumed entry age to the assumed retirement age were applied to the projected benefits to determine the normal cost (the portion of the total cost of the plan allocated to the current year under the method). The normal cost is determined by summing intermediate results for active members under age 90 and determining an average normal cost rate which is related to the total payroll of active members under age 90. The actuarial assumptions shown in this section were used in determining the projected benefits and cost factors. The actuarial accrued liability for active members (the portion of the total cost of the plan allocated to prior years under the method) was determined as the excess of the actuarial present value of projected benefits over the actuarial present value of future normal costs.

The actuarial accrued liability for retired members and their beneficiaries currently receiving benefits, active members age 80 and over, terminated vested members and disabled members not yet receiving benefits was determined as the actuarial present value of the benefits expected to be paid. No normal costs are now payable for these members.

The actuarial accrued liability under this method at any point in time is the theoretical amount of the fund that would have been accumulated had annual contributions equal to the normal cost been made in prior years (it does not represent the liability for benefit accrued to the valuation date). The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of plan assets measured on the valuation date. The unfunded actuarial accrued liability is funded with a level dollar payment amount over 25 years from January 1, 2009 and subsequent changes in the unfunded actuarial accrued liability are funded with a closed level dollar payment over 25 years from the date established. If the unfunded actuarial accrued liability becomes negative, prior changes to the unfunded liability are eliminated and the current unfunded actuarial accrued liability is amortized with a closed level dollar payment over 25 years.

Under this method, experience gains or losses, i.e., decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust the unfunded actuarial accrued liability.



APPENDIX C – SUMMARY OF ACTUARIAL ASSUMPTIONS

- 2. Calculation of the Actuarial Value of Assets:** Effective January 1, 2003, the actuarial value of assets was initiated at Market Value and equals the sum of the employee and employer cash balance accounts. In future years, the actuarial value of assets will be based on a five-year smoothing method with phase-in and is determined by spreading the effect of each year's investment return in excess of or below the expected return. The Market Value of assets at the valuation date is reduced by the sum of the following, each determined after January 1, 2003:
- (i) 80% of the return to be spread during the first year preceding the valuation date.
 - (ii) 60% of the return to be spread during the second year preceding the valuation date.
 - (iii) 40% of the return to be spread during the third year preceding the valuation date.
 - (iv) 20% of the return to be spread during the fourth year preceding the valuation date.

The return to be spread is the difference between (1) the actual investment return on Market Value and (2) the expected return on Actuarial Value. The expected return on Actuarial Value includes interest on the previous year's unrecognized return.

B. VALUATION PROCEDURES

No actuarial liability is included for participants who terminated without being vested prior to the valuation date, except those due a refund of the employee cash balance account.

The compensation amounts used in the projection of benefits and liabilities for active members were prior plan year compensations.

Projected benefits were limited by the dollar limitation required by the Internal Revenue Code Section 415 as it applies to governmental plans and compensation limited by Section 401(a)(17).

Changes in Methods and Procedures Since the Prior Year

There have been no changes in the actuarial methods or procedures since the prior valuation.



APPENDIX C – SUMMARY OF ACTUARIAL ASSUMPTIONS

ECONOMIC ASSUMPTIONS

1. Investment Return 7.75% per annum, compounded annually, net of expenses.
2. Inflation 3.25% per annum, compounded annually.
3. Interest Crediting Rate on Cash Balance Accounts 6.75% per annum, compounded annually.
4. Annuitization Rate of Member & Employer Accumulated Balances 7.75% per annum, compounded annually.

5. Salary Scale

Service	<u>Annual Increase in Salary</u>		
	Merit & Productivity	Inflation	Total
0	2.11%	3.25%	5.43%
1	1.98	3.25	5.30
2	1.79	3.25	5.10
3	1.49	3.25	4.79
4	1.27	3.25	4.56
5	1.19	3.25	4.48
6	1.16	3.25	4.44
7	1.14	3.25	4.43
8	1.10	3.25	4.38
9	1.06	3.25	4.35
10	1.03	3.25	4.31
11	1.02	3.25	4.30
12	0.98	3.25	4.26
13	0.94	3.25	4.22
14	0.92	3.25	4.20
15	0.89	3.25	4.17
16	0.85	3.25	4.13
17	0.82	3.25	4.10
18	0.81	3.25	4.09
19	0.78	3.25	4.06
20+	0.73	3.25	4.00

DEMOGRAPHIC ASSUMPTIONS

1. Mortality

Mortality assumptions were based on actual experience during the last experience analysis and includes an allowance for expected future mortality improvement.

- a. Active Members 1994 Group annuity Mortality Table, setback 1 year, projected to 2015 (55% of male rates for males, 40% of female rates for females).



APPENDIX C – SUMMARY OF ACTUARIAL ASSUMPTIONS

b. Retired members and beneficiaries 1994 Group Annuity Mortality Table, setback 1 year, sex distinct projected to 2015 using Scale AA.

c. Mortality rates under the mortality table for active members are shown below at sample ages:

Sample Age	Active Mortality Rate	
	Males	Females
30	0.04%	0.01%
40	0.05	0.02
50	0.09	0.04
60	0.28	0.14
70	0.89	0.46
80	2.44	1.22

d. Life expectancies under the mortality table for active members are shown below at sample ages:

Sample Age	Life Expectancy (Years)	
	Males	Females
30	58.5	64.8
40	48.7	54.9
50	39.0	45.0
60	29.5	35.3
70	20.8	26.1
80	13.1	17.6

e. Mortality for Annuitization of Employee and Employer Cash Balance Accounts 1994 Group Annuity Mortality Table, with 50 % Male, 50% Female blending.

Sample Age	Mortality Rate	Life Expectancy (Years)
55	0.34%	28.0
60	0.62	23.5
65	1.16	19.4
70	1.87	15.7
75	2.99	12.2
80	5.07	9.3



APPENDIX C – SUMMARY OF ACTUARIAL ASSUMPTIONS

2. Retirement

Graduated rates by retirement age after 5 years of service.

Age	Annual Rates
55	5.0%
56	5.0
57	5.0
58	5.0
59	5.0
60	5.0
61	8.0
62	15.0
63	10.0
64	15.0
65	25.0
66	25.0
67	25.0
68	25.0
69-79	20.0
80	100.0

3. Termination

Graduated rates by age and service.

Age	Annual Rate Per 100 Members					
	<1	1-<2	2-<3	3-<4	4-<5	5+
20	17.0	16.0	15.0	13.5	12.0	13.3
25	17.0	16.0	15.0	13.5	12.0	13.3
30	17.0	16.0	15.0	13.5	12.0	10.3
35	17.0	16.0	15.0	13.5	12.0	7.5
40	17.0	16.0	15.0	13.5	12.0	6.4
45	17.0	16.0	15.0	13.5	12.0	4.8
50	17.0	16.0	15.0	13.5	12.0	4.0
55	17.0	16.0	15.0	13.5	12.0	4.0

4. Disability

None.



APPENDIX C – SUMMARY OF ACTUARIAL ASSUMPTIONS

OTHER ASSUMPTIONS

1. Payment Assumptions

As shown in the table below, 50% of all members eligible for retirement are assumed to be paid in the form of an annuity and the other 50% in the form of a lump sum, and 100% of members eligible for all other types of benefits are assumed to be paid in the form of a lump sum. Deferred vested and non-vested members are assumed to take a refund of their account balance as of the valuation date.

Benefit	Assumed Form of Payment
Retirement	50% Lump Sum / 50% Annuity*
Vested	Lump Sum
Non-vested	Lump Sum
Disability	Lump Sum
Death	Lump Sum

*Five-year certain and life annuity.

2. Cost of Living Adjustment

None assumed, except 2.5% per year is used for retirees electing annuity payments with a COLA feature.

Changes in Assumptions Since the Prior Year

There have been no changes in assumptions since the prior valuation.



APPENDIX D – GLOSSARY OF TERMS

Actuarial Accrued Liability	The difference between the actuarial present value of system benefits and the actuarial value of future normal costs. Also referred to as “accrued liability” or “actuarial liability”.
Actuarial Assumptions	Estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.
Accrued Service	Service credited under the system which was rendered before the date of the actuarial valuation.
Actuarial Equivalent	A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate assumptions.
Actuarial Cost Method	A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of retirement system benefit between future normal cost and actuarial accrued liability. Sometimes referred to as the “actuarial funding method”.
Experience Gain (Loss)	The difference between actual experience and actuarial assumptions anticipated experience during the period between two actuarial valuation dates.
Actuarial Present Value	The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest and by probabilities of payment.
Amortization	Paying off an interest-discounted amount with periodic payments of interest and principal, as opposed to paying off with lump sum payment.
Normal Cost	The actuarial present value of retirement system benefits allocated to the current year by the actuarial cost method.



APPENDIX D – GLOSSARY OF TERMS

Unfunded Actuarial Accrued Liability The difference between actuarial accrued liability and the valuation assets. Sometimes referred to as “unfunded actuarial liability” or “unfunded accrued liability”.